The primary objectives of the meeting included a review and discussions on the following topics:

- FY 2009 Unaudited 1st Close Results – EBD #14.2
- BARC Report – EBD #3.2
- FY 2010 Final Budget Ceilings – EBD #3.1
- Audit Planning Discussion – EBD #4.3
- Controller’s Report – EBD #4.2
- New Business Development Meeting

FY 2009 Update – EBD #14.2

G. Calloway provided the committee with a review of the fiscal year end results based on the 1st and 3rd close results. He noted that there will be a fourth and hopefully final close and that the auditors will be in the offices to conduct the audit November 17 – December 11.

The first item was to recognize the accounting staff for their efforts in capsulizing the information related to the year-end close process. Their efforts are considered significant in view of the issues encountered during the year.

_Total ALA_ - Total ALA revenues for the period were $53.1 million, which is 7.9% or $4.6 million less than budget of $57.7 million. This compares to $56.7 million last year. Accounting for most of the shortfall against budget was Publishing ($3.2 million), Divisions ($771,000) and Grants & Awards ($789,000). Total ALA expenses for the period were $52.9 million compared to $54.1 million last year. This was 11.6% or $6.9 million less than budget. The result was excess revenues over expenses of $260,000.

From this point forward, the budget discussion focused on the General Fund. Committee members were lead through a review of the budget adjustments that were made at mid-year in order to bring in a balanced budget. After the February financials were reviewed, management forecast a reduction in revenues from $30.3 million to $27.3 million and to $28.9 million on the expense side. This resulted in a projected loss in net revenue of $1.6 million. The shortfall was to be addressed by making a number of expense reductions. These included one time adjustments (vacation accruals, unclaimed checks etc.) of $741,000 and operating expense reductions (handbook, Publishing, furloughs etc.) of $447,000 for a total of $1.2 million. The
remaining balance of the shortfall of $436,000 was to be covered by Board approval to use net asset reserves.

**General Fund** - General Fund revenues based upon the 1st close totaled $26.9 million and were $368,000 (1.4%) less than the adjusted budget of $27.3 million and $3.2 million (11.8%) less than the approved budget. General Fund expenses were $26.8 million and were $2.1 million (7.2 %) less than the adjusted budget of $28.9 million and $3.3 million (10.8%) less than the approved budget. It was noted that the expense savings i.e. furloughs, BCBS refund etc. are one time in nature and were not structural reductions. The net result was excess revenues over expenses of $92,000. The use of the reserves fund was not required.

Based on the 3rd close, G. Calloway stated that the net income is $383,000. Other accounting treatments are expected to improve the bottom line such as tax savings of $100,000 - $200,000. At this point, because of additional accounting treatments and a larger potential net income, management will be recommending several budget actions. The following actions were taken:

- **F&A concurs with BARC and endorses management’s recommendation in concept, that based upon third close results that staff be awarded a one time organizational incentive of up to $200,000, with the balance directed to the Board Designated Reserve Fund.**

- **F&A concurs with BARC recommends to the Executive Board that $250,000 be allocated in FY 2010 from the Board Reserve Fund to be used for 2010 initiative projects.**

- **F&A concurs with BARC and moves to recognize and commend all staff throughout ALA on their initiative, commitment and dedication to solving the financial issues confronting ALA during FY 2009.**

**BARC Report – EBD #3.2**

J. Neal reported to the committee on the activities of BARC, who met for two days on 10/8 & 10/9. He highlighted the primary objectives that are standard for the committee at its fall meeting:

- BARC Orientation
- FY 2009 Budget Review, 1st Close Results – BARC #5.2
- FY 2010 Budget Update – BARC #26
- Electronic Member Participation
- New Business Development
- Membership Discussion
- Publishing Discussion
- PBA and Finance Workshop Content
The meeting resulted in a number of actions that were forwarded to the Finance & Audit committee:

**BARC endorsed management’s recommendation in concept and recommends to F&A, that based upon the first close data, if the anticipated net revenue exceeds $200,000 that 50% be allocated for a one time organizational incentive for staff of up to $150,000. Therefore, the balance will be deposited in the Board Reserve Fund.**

BARC recommends to F&A that $250,000 be allocated in FY 2010 from the Board Reserve Fund to be used for 2010 initiative projects.

BARC moves to recognize and commend all staff throughout ALA on their initiative, commitment and dedication to solving the financial issues confronting ALA during FY 2009.

**FY 2010 Budget Overview – EBD #3.1**

G. Calloway highlighted for the committee changes to the FY10 budget since the Annual Conference. It was noted that specific indicators related to the membership dues and Midwinter Meeting reflect concern with current revenue projections. As a result, management made several adjustments to the budget to reduce both revenue and expenses. Some of the changes include the following:

- Reduced dues revenue targets
- Incorporated approved grants received after Annual Conference
- Modified Division budgets based on their boards’ recommendations

After a great deal of discussion on the changes since Annual Conference the following action was taken:

**F&A concurs with BARC and recommends to the Executive Board approval of the FY 2010 Final Budget as stated in EBD #3.1 – see attached.**

It should be noted that expense levels for the FY10 budget are at the same level of FY07. Additionally, the 9.6 positions eliminated during the FY09 General Fund budget adjustments reflect some of the structural changes that will have an impact in FY10. Where possible, recommendations related to electronic member participation will be advanced.

The Executive Director took the opportunity to inform the committee that FY10 and FY11 could very well look like FY09 in terms of its difficulty on the Association and its membership. This position reflects the impact of the current state of the general economy, despite the improving conditions, which tends to lag in the library environment and the alternative years of two division national conferences. He also discussed the FY10 Contingency Scenario developed as a result of a possible net revenue shortfall.

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1 This motion was adjusted upward by F&A as a result of receiving 3rd close information.
Finally, as a reminder, this budget has no approved transfers into the endowment which is a continuing reflection of the current economic conditions and cash flow concerns.

**Controller’s Report – EBD #4.2**

ALA Controller, Russ Swedowski’s, presented the fiscal year end status of the inventory, credit & collections and cash and short-term investments.

**Inventory** – Inventory levels at 8-31-09 for ALA Editions and Products & Promotions were $717,000 and $739,000 respectively. The ALA Editions inventory reflects a $35,000 valuation for the 11th edition of *Guide to Reference* books. The largest item in the inventory for Products & Promotions is the “Read” products (53) valued at $103,000. The excess and obsolete inventory reserves for ALA Editions and Products & Promotions were $286,000 and $201,000 respectively, which are appropriate. For the year there has been $10,000 (Editions) and $16,000 (Products & Promotions) of destruction of excess or obsolete inventory. Testing of reserves was performed as part of the year-end closing process, which resulted in a reduction in reserves of $72,000 in Graphics and $72,000 in ALA Editions.

**Credit and Collections** – As of 8-31-09 trade receivables totaled $2.2 million as compared to $2.1 million a year earlier. Trade receivables had an unusual departure from historical trends as the 150+ day category increased to $500,000 from $225,000 due to early Midwinter Meeting exhibit billings. During the 2nd close period ALA’s fulfillment company – PBD – will be providing several year-end reports to test the adequacy of the bad debt reserve. The current pre-adjusted reserve is $327,000 and will be adjusted downward by an additional $100,000. It is expected that year-end testing will illustrate that the reserve level is likely too high for the trade balance. As result, the reserve may be reduced 25% - 50%. Excellent collection efforts account for the excess reserves.

**Annual Audit** – Accounting staff met with representatives from Grant Thornton on July 23, 2009 to commence the preliminary audit work. Auditors were provided with requested work papers and reconciliations. The auditors will be back in the office for final fieldwork during the week of November 16th. The work on the A-133 will be completed in March/April 2010.

**Cash Management** - As mentioned earlier, cash and short-term investments at 8-31-09 was $16.9 million compared to $21.0 million last year. Interest income for the year was $1.1 million and $273,000 more than budget as a result of bond investments and endowment fund interest transfers. The Neuberger Berman bond fund investment balance is $15.3 million. As a result of operating needs, two withdrawals (5/29 & 9/22) totaling $1.4 million were made. This fund has produced $7.8 million in interest income since 12/91.

The Association maintains a $2.5 million line of credit with JP Morgan Chase. On 8/20 the Association initiated it’s first ever withdrawal in the amount of $500,000 in order to compliment operating cash needs. This amount was repaid in full on 10/8.
**Regulator Issues** – The Controller reported that the Department of Labor, IRS and Pension Benefit Guarantee Corporation published revisions to the 2009 form 5500 Annual Report/Return of Employee Benefit Plans. The new requirements will result in additional schedules and an audit of each plan. ALA has six plans. The changes took affect 1/1/09 with returns due in the summer of 2010.

**Audit Planning – EBD #4.3**

John Fedus of Grant Thornton joined the committee to discuss the upcoming audit of the Associations’ FY09 financial results. He detailed the personnel that would be used during the audit. This will include a General Partner, a Senior Manager, a Senior Associate and a number of other Junior Associates. The timetable will begin with final fieldwork 11/17 – 12/11 with a final draft due before the holidays. Note that preliminary planning for this audit began the last week of July. He and the General Partner will be in Boston to report to the Executive Board. Also covered were the reports that would be issued with the audit i.e. financial statements, internal control letter and required communications. Note that the required communications will cover things like management estimates, changes in accounting policies, disagreements with management and any other difficulties encountered. The heart of this audit will focus on a review of internal controls, particularly in the areas of contributions, dues, contracts/grants, compensation and investments. New pronouncements that will affect current and future financial statements were covered. The most significant being (FAS 117-1) fair value measurements (FAS 157), subsequent events (FASB 165) and accounting for donor restricted endowment funds (FSAB 158). The discussion closed with the committee expressing a desire to perform a security audit. It is not included in this year’s audit, as ITTS will get a standard review. It was suggested that a full security audit be conducted once every three years or so.

**New Business Development Meeting**

The Treasurer expressed his ongoing concern about the current state of the primary sources of revenue for the Association – Publishing, Conferences and Membership. These are viewed as mature or maturing businesses with limited growth potential. As a major concern, a special group of member leaders from across the Association was put together to address some of these concerns. This committee met earlier this week and the Treasurer summarized for the committee the issues discussed. The purpose was put together to begin the much needed discussion on the Association’s need for “New Business Development” and the establishment of an entrepreneurial environment in an effort to develop new revenue streams. The group essentially discussed the following:

1. Options and strategies within the current ALA structure
2. How and when to create a new organization
3. Building a strong firewall between entities
4. Starting and acquiring businesses
5. Expanding current businesses
This information will be synthesized and shared with a similar internal staff working group. Some good ideas were shared and efforts will be made to move forward as prudently possible.

Acknowledgement

On behalf of the Finance and Audit Subcommittee we want to thank ALA Finance Staff Keith M. Fiels, Greg Calloway, Keith Brown, Russ Swedowski, Sandy Lee and Elaine Klimek for all their help in preparing for and executing the meeting and activities of the 2009 ALA Fall meeting.

Respectfully submitted,
Rodney Hersberger – Treasurer
Em Claire Knowles
Steve Matthews
Larry Romans
James Neal – BARC Chair
F&A concurs with BARC and recommends to the Executive Board approval of the Final FY 2010 General Fund Budgetary Ceiling of $28,094,505 including a $1,726,407 net asset transfer to offset the Plant Fund net operating expenses.

F&A concurs with BARC and recommends to the Executive Board approval of the Final FY 2010 Divisions Budgetary Ceiling of $25,281,015.

F&A concurs with BARC and recommends to the Executive Board approval of the Final FY 2010 Round Tables Budgetary Ceiling of $1,146,880.

F&A concurs with BARC and recommends to the Executive Board approval of the Final FY 2010 Grants and Awards (Restricted Fund) Budgetary Ceiling of $8,959,538.

F&A concurs with BARC and recommends to the Executive Board approval of the Final FY 2010 Long Term Investment Fund (Endowment Fund) Budgetary Ceiling of $616,796 including $97,474 capital gain to be allocated for funding the ALA Spectrum Initiative and a transfer of $94,936 interest and dividends from the Endowment Fund to the General Fund in accordance with Policy 8.5.1.

F&A concurs with BARC and recommends to the Executive Board approval of the Final FY 2010 total ALA Capital Budget of $2,156,539.

F&A concurs with BARC and recommends to the Executive Board approval of the Final FY 2010 General Fund Small Division allocation of $82,468 - $24,711 for ASCLA and $57,757 for ALTAFF.

F&A concurs with BARC and recommends to the Executive Board approval of the Final FY 2010 Total ALA Budgetary Ceiling as follows:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Ceiling</th>
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<tbody>
<tr>
<td>General Fund</td>
<td>$28,094,505</td>
</tr>
<tr>
<td>Division Fund</td>
<td>$25,281,015</td>
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<tr>
<td>Round Tables</td>
<td>$1,146,880</td>
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<tr>
<td>Grants &amp; Awards</td>
<td>$8,959,538</td>
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<tr>
<td>Long Term Investment</td>
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</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$64,098,734</strong></td>
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